

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT
OF
MICHIGAN CITY AREA SCHOOLS
LAPORTE COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
03/21/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Vincent R. Taylor Theophilus Boone, Jr.	07-01-04 to 08-11-06 09-13-06 to 06-30-07
Superintendent of Schools	Michael Harding	07-01-04 to 06-30-07
President of the School Board	James L. Kintzele Adrienne B. Gottlieb Robert C. Frame J. Jeffrey Jones	07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 12-31-06 01-01-07 to 06-30-07



STATE OF INDIANA
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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

TO: THE OFFICIALS OF THE MICHIGAN CITY AREA SCHOOLS, LAPORTE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Michigan City Area Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 8, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 8, 2007



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TO: THE OFFICIALS OF THE MICHIGAN CITY AREA SCHOOLS, LAPORTE COUNTY, INDIANA

We have audited the financial statements of the Michigan City Area Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain immaterial instances of noncompliance that we have discussed with the management of the School Corporation on January 25, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by any one other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 8, 2007

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 6,369,976
Restricted assets:	
Cash and investments	<u>325,585</u>
Total assets	<u>\$ 6,695,561</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 325,585
Unrestricted	<u>6,369,976</u>
Total net assets	<u>\$ 6,695,561</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 13,131,933
Restricted assets:	
Cash and investments	<u>3,405,161</u>
Total assets	<u>\$ 16,537,094</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 3,405,161
Unrestricted	<u>13,131,933</u>
Total net assets	<u>\$ 16,537,094</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 24,575,291	\$ -	\$ 472,567	\$ (24,102,724)
Support services	36,245,676	1,496,703	1,858,495	(32,890,478)
Community services	1,347,899	-	-	(1,347,899)
Nonprogrammed charges	2,286,819	-	-	(2,286,819)
Debt service	<u>17,987,461</u>	<u>-</u>	<u>-</u>	<u>(17,987,461)</u>
Total governmental activities	<u>\$ 82,443,146</u>	<u>\$ 1,496,703</u>	<u>\$ 2,331,062</u>	<u>(78,615,381)</u>
General receipts:				
Property taxes				29,327,673
Other local sources				3,755,149
State aid				25,772,920
Grants and contributions not restricted				5,792,905
Bonds and loans				13,821,013
Sale of property, adjustments, and refunds				1,016,126
Investment earnings				<u>358,284</u>
Total general receipts				<u>79,844,070</u>
Change in cash and investments				1,228,689
Net assets - beginning				<u>5,466,872</u>
Net assets - ending				<u>\$ 6,695,561</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 25,122,539	\$ -	\$ 263,341	\$ (24,859,198)
Support services	37,511,945	1,223,525	2,290,768	(33,997,652)
Community services	1,119,558	-	-	(1,119,558)
Nonprogrammed charges	1,357,936	-	-	(1,357,936)
Debt service	16,333,348	-	-	(16,333,348)
Total governmental activities	<u>\$ 81,445,326</u>	<u>\$ 1,223,525</u>	<u>\$ 2,554,109</u>	<u>(77,667,692)</u>
General receipts:				
Property taxes				43,387,770
Other local sources				5,968,076
State aid				25,234,376
Grants and contributions not restricted				6,626,587
Bonds and loans				5,025,429
Sale of property, adjustments, and refunds				722,315
Investment earnings				<u>544,672</u>
Total general receipts				<u>87,509,225</u>
Change in cash and investments				9,841,533
Net assets - beginning				<u>6,695,561</u>
Net assets - ending				<u>\$ 16,537,094</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 19,044,558	\$ 2,641,124	\$ 4,717,882	\$ 5,309,771	\$ 279,853	\$ 2,941,557	\$ 34,934,745
Intermediate sources	2,334	-	-	-	-	731	3,065
State sources	26,219,645	-	-	-	-	679,910	26,899,555
Federal sources	-	-	-	-	-	6,997,332	6,997,332
Bonds and loans	12,521,013	1,300,000	-	-	-	-	13,821,013
Sale of property, adjustments and refunds	953,059	300	-	-	-	62,767	1,016,126
Interfund transfers	295,977	185,119	-	-	-	347,487	828,583
Total receipts	<u>59,036,586</u>	<u>4,126,543</u>	<u>4,717,882</u>	<u>5,309,771</u>	<u>279,853</u>	<u>11,029,784</u>	<u>84,500,419</u>
Disbursements:							
Current:							
Instruction	21,059,901	-	-	-	-	3,515,390	24,575,291
Support services	21,745,440	3,184,367	-	5,819,708	373,326	5,122,835	36,245,676
Community services	468,236	-	-	-	-	879,663	1,347,899
Nonprogrammed charges	1,345,471	941,410	27,951	216,526	1,803	582,242	3,115,403
Debt services	12,780,239	-	5,207,222	-	-	-	17,987,461
Total disbursements	<u>57,399,287</u>	<u>4,125,777</u>	<u>5,235,173</u>	<u>6,036,234</u>	<u>375,129</u>	<u>10,100,130</u>	<u>83,271,730</u>
Excess (deficiency) of total receipts over (under) total disbursements	1,637,299	766	(517,291)	(726,463)	(95,276)	929,654	1,228,689
Cash and investments - beginning	<u>1,158,461</u>	<u>22</u>	<u>658,582</u>	<u>1,818,774</u>	<u>237,162</u>	<u>1,593,871</u>	<u>5,466,872</u>
Cash and investments - ending	<u>\$ 2,795,760</u>	<u>\$ 788</u>	<u>\$ 141,291</u>	<u>\$ 1,092,311</u>	<u>\$ 141,886</u>	<u>\$ 2,523,525</u>	<u>\$ 6,695,561</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 26,298,631	\$ 4,400,842	\$ 9,144,284	\$ 8,018,273	\$ 345,375	\$ 2,912,980	\$ 51,120,385
Intermediate sources	1,782	-	-	-	-	1,875	3,657
State sources	25,473,621	-	-	-	-	501,194	25,974,815
Federal sources	-	-	-	-	-	8,440,257	8,440,257
Bonds and loans	5,025,429	-	-	-	-	-	5,025,429
Sale of property, adjustments and refunds	646,506	3,495	-	-	-	72,313	722,314
Interfund transfers	600,509	83,227	-	-	-	932,959	1,616,695
Total receipts	<u>58,046,478</u>	<u>4,487,564</u>	<u>9,144,284</u>	<u>8,018,273</u>	<u>345,375</u>	<u>12,861,578</u>	<u>92,903,552</u>
Disbursements:							
Current:							
Instruction	21,384,968	-	-	-	-	3,737,571	25,122,539
Support services	21,835,685	3,173,711	9,090	6,223,208	373,110	5,897,141	37,511,945
Community services	440,057	-	-	-	-	679,501	1,119,558
Nonprogrammed charges	469,787	1,375,023	158,865	137,047	4,310	829,597	2,974,629
Debt services	9,195,213	-	6,121,252	-	-	1,016,883	16,333,348
Total disbursements	<u>53,325,710</u>	<u>4,548,734</u>	<u>6,289,207</u>	<u>6,360,255</u>	<u>377,420</u>	<u>12,160,693</u>	<u>83,062,019</u>
Excess (deficiency) of total receipts over (under) total disbursements	4,720,768	(61,170)	2,855,077	1,658,018	(32,045)	700,885	9,841,533
Cash and investments - beginning	<u>2,795,760</u>	<u>788</u>	<u>141,291</u>	<u>1,092,311</u>	<u>141,886</u>	<u>2,523,525</u>	<u>6,695,561</u>
Cash and investments - ending	<u>\$ 7,516,528</u>	<u>\$ (60,382)</u>	<u>\$ 2,996,368</u>	<u>\$ 2,750,329</u>	<u>\$ 109,841</u>	<u>\$ 3,224,410</u>	<u>\$ 16,537,094</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUND
For The Year Ended June 30, 2005

	<u>Pension Trust Fund</u>
Additions:	
Local sources	\$ <u>9,450</u>
Deductions:	
Instruction	1,220,549
Support services	<u>442,072</u>
Total deductions	<u>1,662,621</u>
Deficiency of total additions under total deductions	(1,653,171)
Cash and investments - beginning	<u>2,655,545</u>
Cash and investments - ending	<u><u>\$ 1,002,374</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUND
For The Year Ended June 30, 2006

	<u>Pension Trust Fund</u>
Additions	\$ <u>-</u>
Deductions:	
Instruction	740,680
Support services	<u>261,341</u>
Total deductions	<u>1,002,021</u>
Deficiency of total additions under total deductions	(1,002,021)
Cash and investments - beginning	<u>1,002,374</u>
Cash and investments - ending	<u><u>\$ 353</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUND
June 30, 2005

<u>Assets</u>	<u>Pension Trust Fund</u>
Cash and investments	\$ 1,002,374
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ 1,002,374

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUND
June 30, 2006

<u>Assets</u>	<u>Pension Trust Fund</u>
Cash and investments	\$ 353
	<u>353</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ 353
	<u>353</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

These financial statements present the School Corporation (primary government). There are no significant component units which require inclusion.

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant in the North Central Public School Study Council (Study Council) a joint services program established October 1994, for the cooperative study of common educational problems; the diffusion of effective educational practices; and the stimulation of the active participation of school boards, administrators, teachers, pupils and laymen in educational planning and activity. A board composed of a member from each participating school corporation governs the Study Council. The School Corporation pays \$700 annually to belong to the Study Council. Complete financial statements for the Study Council can be obtained from the Argos Community School, 410 North First Street, Argos, IN 46501.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service funds account for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund type:

The pension trust fund accounts for bonds and payments anticipated to be made to employees on or after the termination of employment or to pay postretirement or severance benefits held by the School Corporation in a trustee capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 8 to 12 days per year based on months of service. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees through cash payments, based upon a formula, upon retirement.

b. Vacation Leave

Administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 to 4 days per year. Unused personal leave may be accumulated to a maximum of 4 to 5 days, based upon employment classification and position. Accumulated personal leave is transferred and accumulated as sick leave.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds are not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as referenced in state statute.

<u>Fund</u>	<u>2005</u>	<u>2006</u>
Transportation Operating	<u>\$ -</u>	<u>\$ 60,382</u>

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2006, the bank balance held at Horizon Bank in the amount of \$16,537,448 was collateralized with securities held by the pledging financial institution.

2. Investments

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	2005	2006
General Fund	Nonmajor governmental	\$ -	\$ 469,787
Transportation Operating	General Fund	14,299	-
Transportation Operating	Nonmajor governmental	1,311	75,023
Debt Service	General Fund	27,951	-
Debt Service	Nonmajor governmental	1,345	181,490
Capital Projects	General Fund	31,407	-
Capital Projects	Transportation Operating	185,119	-
Capital Projects	Nonmajor governmental	-	137,047
School Bus Replacement	Nonmajor governmental	1,803	4,310
Nonmajor governmental	General Fund	222,320	600,509
Nonmajor governmental	Transportation Operating	-	83,227
Nonmajor governmental	Nonmajor governmental	<u>343,028</u>	<u>65,302</u>
Totals		<u>\$ 828,583</u>	<u>\$ 1,616,695</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees (excluding administrators), retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits for Administrators

During 2002, the School Corporation joined with other governmental entities to form the Porter County School Employees Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for eight member governmental entities. This risk pool was formed in 1995. The purpose of the risk pool is to provide a medium for the funding and administration of claims for medical expenses for employees, and dependents, (excluding postemployment

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

benefits). The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$100,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$100,000 limit up to a maximum stop loss of \$5,000,000.

B. Holding Corporations

The School Corporation has entered into a capital lease with the Michigan City School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. Lease payments during the year ended June 30, 2006, totaled \$4,280,250.

The School Corporation has also entered into a capital lease with the Michigan City Area-Wide School Building Corporation, (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the year ended June 30, 2006 totaled \$1,261,000.

C. Subsequent Events

On July 26, 2006, \$2,000,000 school improvement bonds were sold at a net interest rate of 4.15% for the Marsh Elementary Expansion Project.

On September 12, 2006, the preliminary determination resolution was approved to enter into a lease for the construction of the new Mullen and Pine Elementary buildings and the renovation of and an addition to the Marsh Elementary School Building. The lease will be for a maximum of 20 years with a maximum annual lease rental of \$3,125,000 through and including 2020 and thereafter a maximum annual lease rental of \$8,565,000 for the remaining term of the lease. The maximum annual lease has been based upon an estimated principle amount of \$38,500,000 and estimated interest rates ranging from 3.5% to 5.7%.

D. Postemployment Benefits

In addition to the pension benefits described in Note IV. E., the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 15 years of service. Currently, 61 retirees meet these eligibility requirements. The School Corporation provides 100% of these postemployment benefits. The School Corporation provides an annual amount of \$7,500 for health insurance coverage for employees who retired after January 1, 2004. The retiree provides any premium amount above the \$7,500. There are currently 28 retirees who meet these eligibility requirements. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$666,921 were recognized for postemployment benefits.

E. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 475,810
Interest on net pension obligation	(37,811)
Adjustment to annual required contribution	<u>43,088</u>
Annual pension cost	481,087
Contributions made	<u>573,034</u>
Decrease in net pension obligation	(91,947)
Net pension obligation, beginning of year	<u>(521,526)</u>
Net pension obligation, end of year	<u><u>\$ (613,473)</u></u>

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
School Corporation	6.25%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions	
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 526,240	104%	\$ (422,465)
	06-30-04	456,188	122%	(521,526)
	06-30-05	481,087	126%	(613,473)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

MICHIGAN CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

Plan members are required to contribute 3% of their salary (paid by the School Corporation) and the School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,502,076, \$1,445,928, and \$1,144,392, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

MICHIGAN CITY AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 7,463,270	\$ 7,937,463	\$ (474,193)	94%	\$ 8,316,486	(6%)
07-01-04	7,717,932	8,306,324	(588,392)	93%	8,351,337	(7%)
07-01-05	8,171,623	9,177,636	(1,006,013)	89%	8,363,345	(12%)

MICHIGAN CITY AREA SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 2,832,835
Buildings	98,869,100
Improvements other than buildings	2,166,579
Machinery and equipment	7,811,377
Vehicles	<u>5,164,730</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 116,844,621</u>

MICHIGAN CITY AREA SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
School building improvements	\$ 59,972,388	\$ 4,485,000
Computer equipment	407,797	407,797
General obligation bonds:		
To fund retirement/severance obligation of the school	11,255,000	355,000
Total governmental activities long-term debt	<u>\$ 71,635,185</u>	<u>\$ 5,247,797</u>

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates enrollment figures on Form 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2006. The enrollment count date for the school year 2005-2006 was September 16, 2005. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2005-2006	Kindergarten	256.50	256.00	.50
2005-2006	1 through 12	6,246.00	6,232.00	14.00

It was determined that the reported counts for grades 1 through 12 included students who had withdrawn before September 16, 2005, and the kindergarten reported count included a pre-school student.

In addition, the number of Honors Diplomas claimed for the following school years were overstated by:

<u>School Year</u>	<u>Count as Reported on Form 30A</u>	<u>Academic Honor Diplomas</u>	<u>Difference</u>
2004-2005	78	62	16
2005-2006	92	59	33

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

COMPENSATORY TIME RECORDS

Internal control deficiencies in the record keeping of the personnel who are allowed to earn compensatory time are as follows:

1. No documentation or proof of approval when compensatory time is earned was presented for audit.
2. Compensatory time balances are maintained by the individual earning the time.
3. Earned, used and balances for compensatory time are not maintained on the employee's service record.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

RECEIPTS

Four schools provide the before and after school program, Safe Harbor, which collects fees and issues receipts to parents. The collections are then remitted to the School Corporation for depositing and posting to the Safe Harbor Fund. A review of the Safe Harbor receipts noted the following deficiencies:

1. The receipts used were not the prescribed or an approved receipt form.
2. The composition of the receipts was not always noted. (cash or check)
3. Duplicate receipts were not retained in the receipt book.
4. Receipt books had big date gaps. For example, 2006 receipts were noted at the end of a 2004 book.
5. A report detailing which receipts were remitted together was not provided, thus, difficulty was encountered in determining if all collections were remitted.
6. Receipt book from 2005 contained unused receipts which were not voided or defaced.

The A.K. Smith Career Center collects adult education and night school fees and issues a receipt to the students. The fees collected are then remitted to the School Corporation for depositing and posting to the General Fund. A review of the A.K. Smith Career Center receipts noted the following deficiencies:

1. The receipts used were not the prescribed or an approved receipt form.
2. Collections are not remitted timely to the administration building for depositing and posting. The deposit is sometimes up to 30 days after the date received by the Career Center.

Plant planning bills and collects amounts owed by organizations which rent school facilities. Plant planning does not issue receipts at the time the payment for the rental is received.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

PREScribed FORM - SCHOOL LUNCH EXTRA-CURRICULAR ACCOUNT

The Purchase Order/Accounts Payable Voucher (Form SA-1) was not used to support the 2005-2006 disbursements.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

TEXTBOOK RENTAL RECEIPTS (Applies to Coolspring Elementary School)

Textbook rental receipts could not be verified to extra-curricular receipts and deposits. Additionally the composition of the textbook receipt series did not always match the composition of the extra-curricular receipt and deposit. The total amount of the textbook receipt series in one case, did not match the extra-curricular receipt and deposit amount and the amount paid was not designated. Therefore, we could not determine the total receipt series amount to verify to the extra-curricular receipt and deposit.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

RECEIPT ISSUANCE (Applies to Joy Elementary School)

Copies of receipts were not given to the person making payment. Additionally, the Treasurer marked a checkmark by both cash and check on receipt when applicable. Amounts on receipts were not specified by either denomination, therefore, verification of the composition of deposits was not possible.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

USE OF FORM SA-6, EXTRA-CURRICULAR LEDGER (Applies to Mullen Elementary School)

The Extra-Curricular Account Treasurer did not provide the Extra-Curricular Ledger (Form SA-6) for either the 2004-2005 or 2005-2006 school years.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

TEXTBOOK RENTAL DEPOSITS (Applies to Edgewood, Joy, Mullen, and Niemann Elementary Schools)

Textbook rental receipts for the schools identified below, were not always deposited within a reasonable time:

<u>SCHOOL</u>	<u>RANGE OF DAYS</u>
Edgewood Elementary	9 to 18
Joy Elementary	9 to 24
Mullen Elementary	9 to 22
Niemann Elementary	9 to 34

Indiana Code 20-41-1-9 states in part: "... receipts shall be deposited without unreasonable delay."

PERSONAL PROPERTY USE (Applies to Michigan City High School)

The High School Athletic Department entered into a contract for cell phones useage by Athletic Department employees. A log listing school business use was not presented for audit. A similar comment appeared in the prior report.

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Indiana Code 20-26-4-8 states:

"Notwithstanding any other law, the president and secretary of the governing body of a school corporation are entitled, on behalf of the school corporation, to sign any contract, including employment contracts and contracts for goods and services. However, each contract must be approved by a majority of all members of the governing body. In the absence of either the president or secretary of the governing body, the vice president is entitled to sign the contracts with the officer who is present."

INTERNAL CONTROLS OVER FOOTBALL COLLECTIONS (Applies to High School)

The High School Football program, before the season started required all players to purchase a \$40 football packet. This packet was made up of practice jerseys, shirts, shorts, mouthpieces, etc. An athlete who did not have the required \$40 had the opportunity to participate in a lift-a-thon fundraiser to raise the money. All payments were to be made to the head coach, who would remit collections to the Extra-Curricular Treasurer. There were approximately 110 players on the football team, which computes to \$4,400 in estimated receipts.

The football team sold discount cards in addition to the packets, from Varsity Gold as a fundraiser. The players were given the cards and sold them for \$20 each for one week. The players met with the football coach at the end of the week, and the Varsity Gold representative to turn in the collections and any unsold

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

cards. The proceeds were split evenly (\$10 each) between the football team and Varsity Gold. The Varsity Gold representative took cash to make up his 'end' and the team kept what cash was left and the checks for their 'end'. Based on information received from Varsity Gold, the football team should have had a net profit of \$6,105 in 2005 and \$6,457 in 2006.

The following table illustrates the differences between the calculated collections and the actual receipts recorded in the Football Fund:

	<u>2005</u>	<u>2006</u>
Calculated collections for football packets (110 players at \$40 each)	\$ 4,400	\$ 4,400
Discount cards profit (less prizes awarded)	<u>6,105</u>	<u>6,457</u>
Total calculated collections	10,505	10,857
Less: Receipts per Football Fund for fundraisers	<u>(6,015)</u>	<u>(6,092)</u>
Difference	<u>\$ 4,490</u>	<u>\$ 4,765</u>

The \$6,015 remitted in 2005, to the Extra-Curricular Treasurer was made up of \$540 in cash and \$5,475 in checks and money orders. The entire \$6,092 receipted in 2006, was made up of checks; no cash was remitted to Extra-Curricular Treasurer. The football coach had no explanation for the lack of cash when questioned by school administrators.

When the administration inquired about the differences noted above, the football coach indicated that some of the players were unable to raise the money necessary for the football packets. The players were given the packets for free in these instances. The football coach did not know how many players received free packets. The coach also stated that he spent approximately \$1,588 of the collections in 2006 for various football supplies and equipment before remitting the funds to the Treasurer. However, the coach was unable to provide any documentation supporting these purchases. The coach also indicated to school administrators that \$0 was raised at the lift-a-thon in 2006. However, a review of the checks remitted to treasurer in 2006 revealed that two of the checks specified the money was for the lift-a-thon. Finally, the profit from the discount cards may have been less because the School was charged for unsold cards that the players lost or did not bring back. The coach could not provide any documentation as to the number of cards that were lost or given away for free.

Due to the lack of internal controls and lack of oversight by the school administration over fundraisers held by extra-curricular activities, we could not determine who is responsible for the shortfalls in the fundraisers described above.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDIANAPOLIS, INDIANA 46204-2769

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE MICHIGAN CITY AREA SCHOOLS, LAPORTE COUNTY, INDIANA

Compliance

We have audited the compliance of the Michigan City Area Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. We believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 8, 2007

MICHIGAN CITY AREA SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 375,570	\$ 428,176
National School Lunch Program	10.555		1,121,831	1,338,938
Child and Adult Care Food Program	10.558		40,631	49,649
Summer Food Service Program for Children	10.559		76,727	87,112
Total for cluster			1,614,759	1,903,875
Pass-Through Indiana Department of Education				
Commodity Supplemental Food Program	10.565		111,124	73,879
Team Nutrition Grants	10.574		-	1,109
Total for federal grantor agency			1,725,883	1,978,863
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Michigan City Redevelopment Commission				
CDBG - Entitlement and (HUD-Administered) Small Cities Cluster				
Community Development Block Grants/Entitlement Grants				
Even Start Operational Support Project	14.218		34,151	14,349
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>				
Pass-Through Indiana State Library				
Grants to States	45.310		-	5,000
<u>U. S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
PL 101-476 IDEA CSPD		14203-040-DY08	4,014	-
PL 101-476 IDEA CSPD		14204-048-DY01	2,264	82,736
PL 101-476 IDEA CSPD		14204-040-PY02	178,572	-
IDEA Special Education		14205-040-PN01	1,544,458	107,520
IDEA Special Education		14206-040-PN01	-	1,637,795
Sliver Grant		14204-040-SN01	3,709	-
Sliver Grant		14205-040-SN01	23,590	768
Sliver Grant		14206-040-SN01	-	24,358
Total for program			1,756,607	1,853,177
Special Education - Preschool Grants	84.173			
		45705-040-PN01	69,370	833
		45706-040-PN01	-	70,930
Total for program			69,370	71,763
Total for cluster			1,825,977	1,924,940
Direct Grant:				
Safe and Drug Free Schools and Communities National Programs	84.184			
Mentoring Program Grants		Q184B040928	150,897	31,330
LaPorte County Mentor Consortium		Q184B040928-05	-	163,484
Total for program			150,897	194,814

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

MICHIGAN CITY AREA SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U. S. DEPARTMENT OF EDUCATION (continued)</u>				
Direct Grant:				
Fund for the Improvement of Education	84.215	Q215E040507		
Elementary and Secondary School Counseling Demonstration Program		Q184B040928-05	237,696	12,933
			-	371,361
Total for program			237,696	384,294
Pass-Through Indiana Department of Education				
Adult Education - State Grant program	84.002			
Adult Basic Education		FY04-8022	2,896	-
Adult Basic Education		FY05-8022	147,714	7,724
Adult Basic Education		FY06-8022	-	115,994
Total for program			150,610	123,718
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	04-4925	219,748	-
		05-4925	1,276,227	431,472
		06-8022	-	1,352,516
Title I School Improvement Grant		SY05-06	-	27,669
Total for program			1,495,975	1,811,657
Pass-Through Indiana Department of Education				
Vocational Education - Basic Grants to States	84.048	04-4700-4925	16,831	-
		05-4700-4925	267,485	5,023
		06-4700-4925	-	270,646
Pass-Through Indiana Association of Area Vocational Districts Inc.		School Improvement Grant	3,000	-
Total for program			287,316	275,669
Pass-Through Indiana Department of Education				
Education Technology State Grants	84.138	SY02-03	18,287	-
		SY03-04	24,097	17,637
		SY04-05	1,398	30,488
		SY05-06	-	2,154
Total for program			43,782	50,279
Pass-Through Indiana Department of Education				
Safe and Drug Free Schools and Communities - State Grants	84.186	02-179	10,606	-
		03-085	32,610	18,687
		04-200	1,830	18,573
Total for program			45,046	37,260
Pass-Through Indiana Department of Education				
Education for Homeless Children and Youth	84.196	FY04	5,213	-
Pass-Through Indiana Department of Education				
Even Start - State Educational Agencies	84.213	S213C030015	47,497	-
		S213C050015	-	97,289
Total for program			47,497	97,289

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

MICHIGAN CITY AREA SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U. S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education Twenty-First Century Community Learning Centers	84.287	S287C020014 03/04 S287C020014 04/06 S287C020014 06/07 S287C020014 05/06 S287C020014 06/07	215,135 385,394 - 3,380 -	- 238,557 56,974 98,221 4,735
Total for program			603,909	398,487
Pass-Through Indiana Department of Education State Grants for Innovative Programs	84.298	02-265 03-294 04-282	11,625 45,892 915	- 10,688 31,660
Total for program			58,432	42,348
Pass-Through LaPorte County Child Abuse Prevention Council, Inc. Parent Assistance Center	84.310	S310A010116	47,382	56,279
Pass-Through Indiana University Special Education - State Personnel Development	84.323	01704-001-PY01 01704-002-PY02	7,145 -	13,965 22,041
Total for program			7,145	36,006
Pass-Through Indiana Department of Education English Language Acquisition Grants	84.365	Title III	11,635	22,705
Pass-Through Indiana Department of Education Improving Teacher Quality State Grants	84.367	02-165 03-223 04-140 05-233	46,560 432,909 182,909 -	- 25,425 231,191 157,608
Total for program			662,378	414,224
Total for federal grantor agency			5,680,890	5,869,969
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Child Care Consortium, Inc. Child Care Development Fund Cluster Child Care Mandatory and Matching Funds of the Child Care and Development Fund Indiana Child Care Fund Mini Grant	93.596		50,602 -	61,563 5,000
Total for cluster			50,602	66,563
Pass-Through Indiana Office of Medicaid Policy and Planning Medicaid Cluster Medical Assistance Program	93.778		18,759	34,494
Pass-Through Swanson Center, Michigan City, IN Block Grants for Prevention and Treatment of Substance Abuse Afternoons Rock	93.959		21,131	26,763
Total for federal grantor agency			90,492	127,820

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

MICHIGAN CITY AREA SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U. S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Pass-Through Indiana Department of Education				
Learn and Serve America - School and Community Based Programs	94.004		<u>4,663</u>	<u>337</u>
 Total federal awards expended			 <u>\$ 7,536,079</u>	 <u>\$ 7,996,338</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

MICHIGAN CITY AREA SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Michigan City Area Schools (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the years ended June 30, 2005 and 2006:

Program Title	Federal CFDA Number	2005	2006
Vocational Education – Basic Grants to States	84.048	<u>\$ 58,325</u>	<u>\$ 49,925</u>

III. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
Commodity Supplemental Food Program	10.565	<u>\$ 111,124</u>	<u>\$ 73,879</u>

MICHIGAN CITY AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted?	no
---	----

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes
--	-----

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster
	Special Education Cluster
84.215	Fund for the Improvement of Education
84.010	Title I Grants to Local Educational Agencies
84.287	Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$465,973

Auditee qualified as low-risk auditee?	no
--	----

Section II – Financial Statement Findings

No matters are reportable.

MICHIGAN CITY AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, CASH MANAGEMENT

Federal Agency: U.S. Department of Education

Pass-Through Agency: Indiana Department of Education

Federal Programs: Special Education Cluster (CSPD), Title I

CFDA Numbers: 84.010, 84.027

Program Numbers: CSPD: 14204-040-PY01, 14205-040-PN01, 14206-040-PN01

Title I: 05-4925, 06-4925

The Title I monthly cash balances exceeded the current month's expenditures. The monthly cash balances for the CSPD grants, exceeded the current month's expenditures by more than 10%. The number of months that had excess cash balances is indicated below:

<u>Federal Grant</u>	<u>Program</u>	<u>Months in Excess</u>
CSPD	14204-040-PY01	11 out of 12
CSPD	14205-040-PN01	11 out of 18
CSPD	14206-040-PN01	8 out of 12
Title I	05-4925	7 out of 12
Title I	06-4925	6 out of 12

34 CFR 80.20(b)(7) states in part: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. . . . Grantees must monitor cash drawdowns by the subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to adhere to cash management requirements may cause the School Corporation to be determined to be ineligible for future federal funding.

The deficiencies in cash management were caused by inaccurate estimations of cash needs. We recommended that School Officials prepare detailed estimates of spending to facilitate accurate draw down requests.



Michael Harding
Superintendent of Schools

Theophilus Boone, Jr., Business Manager
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408 South Carroll Avenue
Michigan City, Indiana 46360-5345
E-Mail: tboone@mcas.k12.in.us
Phone: (219) 873-2000 ext. 8343
Fax: (219) 873-2086

Date: November 28, 2006

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NO. 2004-1

Original SBA Audit Report:
Fiscal Year:
Auditee Contact Person:
Title of Contact Person:
Phone Number:

Cash Management
June 30, 2004
Theophilus Boone, Jr.
Business Manager
219-873-2000 x 8343

Status of Finding:

The Financial Assistant and the Business Manager (V. Taylor) reviewed monthly cash balances and advised appropriate individuals when balances exceeded 10%.

To the best of my knowledge, this corrective action was accomplished.

Signature: Theophilus Boone Jr.



"Schools... The Lighthouses of Our Community"





Michael Harding
Superintendent of Schools

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Fax: (219) 873-2086

Date: November 28, 2006

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NO. 2004-2

Original SBA Audit Report:
Fiscal Year:
Auditee Contact Person:
Title of Contact Person:
Phone Number:

Untimely Reporting
June 30, 2004
Theophilus Boone, Jr.
Business Manager
219-873-2000 x 8343

Status of Finding:

The importance of timely reporting has been reviewed with our food service personnel and will be monitored. (V. Taylor)

To the best of my knowledge, this corrective action was accomplished.

Signature: _____

Theophilus Boone Jr.



"Schools... The Lighthouses of Our Community"





Michael Harding
Superintendent of Schools

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Fax: (219) 873-2086

Date: November 28, 2006

CORRECTIVE ACTION PLAN

FINDING NO. 2004-3

Verification of Free & Reduced Price Applications

Federal Agency:	U.S. Department of Education
Federal Program:	Child Nutrition Cluster
CFDA Number:	10.553, 10.555
Federal Award Number:	
Pass-Through Agency:	Indiana Department of Education
Auditee Contact Person:	Theophilus Boone, Jr.
Title of Contact Person:	Business Manager/Treasurer
Phone Number:	219-873-2000 ext. 8343
Expected Completion Date:	February 2004

Corrective Action: Controls have been established with our food service personnel to rectify this situation.

To the best of my knowledge, this corrective action was accomplished.

Signature: _____

Theophilus Boone Jr.



"Schools... The Lighthouses of Our Community"





Michael Harding
Superintendent of Schools

Theophilus Boone, Jr., Business Manager
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Fax: (219) 873-2086

Date: November 28, 2006

CORRECTIVE ACTION PLAN

FINDING NO. 2004-4

Inaccurate Reporting

Federal Agency:	U.S. Department of Education
Federal Program:	Child Nutrition Cluster
CFDA Number:	10.553, 10.555
Federal Award Number:	
Pass-Through Agency:	Indiana Department of Education
Auditee Contact Person:	Theophilus Boone, Jr.
Title of Contact Person:	Business Manager/Treasurer
Phone Number:	219-873-2000 ext. 8343
Expected Completion Date:	February 2004

Corrective Action: Controls have been instituted with our food service personnel for accurate reporting.

To the best of my knowledge, this corrective action has been accomplished.

Signature: _____

Theophilus Boone Jr.



"Schools... The Lighthouses of Our Community"





Michael Harding
Superintendent of Schools

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CORRECTIVE ACTION PLAN

FINDING NO. 2006-1

Cash Management

Federal Agency:
Federal Programs:
CFDA Numbers:
Federal Award Numbers:

U.S. Department of Education
Special Education Cluster (CSPD), Title I
84.010, 84.027
Title I: 05-4925, 06-4925
CSPD: 14204-040-PY01, 14205-040-PN01,
14206-040-PN01

Pass-Through Agency:
Auditee Contact Person:
Title of Contact Person:
Phone Number:
Expected Completion Date:

Indiana Department of Education
Theophilus Boone, Jr.
Business Manager/Treasurer
219-873-2000 ext. 8343
March 2007

Corrective Action:

The Financial Assistant and the Business Manager will work with our grant administrator to help them do a better job of estimating.

Signature:

Theophilus Boone Jr. 1/9/07



"Schools... The Lighthouses of Our Community"



MICHIGAN CITY AREA SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 25, 2007, with Michael Harding, Superintendent of Schools; Theophilus Boone, Jr., Treasurer; and J. Jeffrey Jones, President of the School Board. The official response has been made a part of this report and may be found on pages 51 through 55.



Michael Harding
Superintendent of Schools

To: State Board of Accounts

Theophilus Boone, Jr., Chief Financial Officer
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Fax: (219) 873-2086

February 8, 2007

From: Theophilus Boone, Jr.

Subject: **Audit Responds - Academic Honors Diploma Reporting**

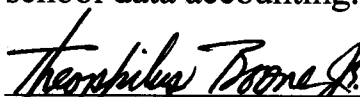
During our State Board of Accounts exit conference on January 25, 2007, an error in reporting was documented for our 2004-2005 and 2005-2006 school years. As stated in your report comments, Michigan City Area Schools submitted incorrect student academic honors totals to the Indiana Department of Education (DOE). You further illustrated that the honors' student data was derived from the DOE 30A report. While reviewing the DOE 30A report for errors in submission, both our administration and your auditors found no evidence of us reporting the wrong student totals. Upon recapping and verifying four years of graduation reports and computer records we found ourselves at a dead-end as to where these erroneous numbers were being submitted.


After further investigation and conversations with Mrs. Debbie Hineline (Director of School Finance for the DOE), we established that the DOE no longer uses the DOE 30A report to determine the state's tuition funding for the Academic Honors Program. The DOE calculates those dollars based upon their Graduation Report's STN number also known as the GR report (see attachment). This report has been used by the DOE for several years and does not require a signoff signature from the administration.

School Year	Count as Reported GR-Report	Academic Honor Diplomas	Difference
04-05	92	61	31
05-06	77	62	15

Therefore, it is the opinion of our administration, that had this report required the proper signoff, these errors would not have occurred.

Finally, in the near future, MCAS will institute a plan to address the district's DOE reporting procedures in an effort to be more meticulous in our school data accounting.


Theophilus Boone, Jr. CFO


Michael Harding, Superintendent



"Schools... The Lighthouses of Our Community"



Message Center > Reports > Graduate ReportAcademic Year: **2004 - 2005**School Building: **All Schools**

Search

Graduate Report - As of 2/7/2007 10:15:50 AM

4925 - Michigan City Area Schools

Graduate Types	American Indian or Alaskan Native		Black / Non-Hispanic		Asian or Pacific Islander		Hispanic		White / Non-Hispanic		Multiracial		Totals
	M	F	M	F	M	F	M	F	M	F	M	F	
Regular Diploma - Passed GQE	0	0	2	3	1	0	0	2	21	31	1	0	61
Academic Honors - Passed GQE	0	0	7	12	0	0	1	1	30	38	1	2	92
Core 40 Only - Passed GQE	0	0	11	16	0	0	1	3	44	26	3	7	111
Regular Diploma - GQE Appeal	0	0	2	1	0	0	0	0	4	1	0	0	8
Core 40 Only - With Core 40 Waiver or GQE Appeal	0	0	0	0	0	0	0	0	5	3	0	0	8
Academic Honors Diploma - With GQE Appeal or Core 40 Waiver	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Graduates	0	0	22	32	1	0	2	6	104	99	5	9	280
Cert. Of Achievement	0	0	0	0	0	0	0	0	0	0	0	0	0
Course Completion	0	0	0	0	0	0	0	0	0	0	0	0	0

The Graduate Report displays graduates from the prior school year listed by Graduate Type.

Post Graduate Report - As of 2/7/2007 10:15:50 AM

	Male	Female
Four Year (or more) College or University	0	0
Two Year College or University	0	0

Vocational/Technical School	0	0
Military	0	0
Students not pursuing higher education	134	146
TOTALS	134	146
Post Graduate Total	280	
The Post Graduate Report displays the types of higher education that graduates from the prior school year are now pursuing.		

Message Center > Reports > Graduate Report

Academic Year: 2005 - 2006

School Building: All Schools

Search

Graduate Report - As of 2/7/2007 10:16:05 AM

4925 - Michigan City Area Schools

Graduate Types	American Indian or Alaskan Native		Black / Non-Hispanic		Asian or Pacific Islander		Hispanic		White / Non-Hispanic		Multiracial		Totals
	M	F	M	F	M	F	M	F	M	F	M	F	
Regular Diploma - Passed GQE	0	0	5	11	0	0	1	2	51	32	1	0	103
Academic Honors - Passed GQE	0	0	2	4	1	3	1	1	24	39	0	2	77
Core 40 Only - Passed GQE	0	0	8	14	0	0	0	1	41	42	0	2	108
Regular Diploma - GQE Appeal	0	0	10	5	0	0	2	3	7	7	0	1	35
Core 40 Only - With Core 40 Waiver or GQE Appeal	0	0	1	0	0	0	0	1	0	1	0	0	3
Academic Honors Diploma - With GQE Appeal or Core 40 Waiver	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Graduates	0	0	26	34	1	3	4	8	123	121	1	5	326
Cert. Of Achievement	0	0	2	1	0	0	0	1	2	0	0	0	6
Course Completion	0	0	5	7	0	0	0	0	1	1	1	0	15

The Graduate Report displays graduates from the prior school year listed by Graduate Type.

Post Graduate Report - As of 2/7/2007 10:16:05 AM

	Male	Female
Four Year (or more) College or University	76	101
Two Year College or University	12	30

Vocational/Technical School	15	1
Military	6	2
Students not pursuing higher education	57	47
TOTALS	166	181
Post Graduate Total	347	
The Post Graduate Report displays the types of higher education that graduates from the prior school year are now pursuing.		